

## **Overview of Bond Proposals: \$820 Million for Construction Work Spread Over the Next 6 Years**

In a climate of very low interest rates and the upcoming completion of large state construction projects such as Gateway Alaska, the timing is opportune for addressing the most pressing statewide infrastructure and deferred maintenance needs prior to the construction industry becoming heavily involved with a gasline and/or missile defense project later in the decade. The Governor's bond package utilizes several types of financing – GARVEE Bonds, general obligation (GO) bonds, certificates of participation (COPs) and revenue bonds – to leverage state and federal dollars. Following this summary overview, each of the proposals is explained in detail in a separate section.

The multi-year timing and statewide scope of these projects will not overtax the Alaska construction industry. For example, one of the main components – the Accelerated Transportation Initiative – amounts to only 2.5% of total anticipated statewide construction over the next 5 years. Projects are spread over several years among different types of contractors (e.g., paving companies, building contractors, smaller remodelers for deferred maintenance jobs, marine construction companies) so the package as a whole would maximize the use of in-state companies.

The school construction and major maintenance portion of the package would be the first use of the state's GO debt capacity since 1981. Debt service payments for all of these bond proposals are subject to annual appropriation by the legislature so there are no legal issues about dedication of funds. Of the total \$819 million, \$384 million requires state support. (The rest is supported by federal or other funds.) The additional general fund debt service would begin in FY2004 at \$30 million, ramping up to about \$39 million per year in state general funds by FY2005. Current general fund supported debt service is \$77 million for FY 02, which is low by historical standards (e.g., state-supported debt service was \$242 million in FY 90).

The overall package meets critical needs in both urban and rural areas of the state.

### ***New Bills Introduced in the 2002 Legislative Session:***

- **School Construction and Major Maintenance (HB 363, SB 259)** - \$212 million authorization to fund two years' worth of the highest ranked projects on the Department of Education and Early Development construction and major maintenance priority lists. The first year appropriation of \$101 million would fund the state share of construction and major maintenance projects and \$109 million would be appropriated the following year. Debt service of \$10.1 million would begin in FY2004, increasing to \$21 million in FY 2005. GO bonds would require a statewide vote in the 2002 general election. It is anticipated that future GO bond issues for school construction and maintenance would be offered to the voters in subsequent election years until the entire \$640 million backlog is completed.
- **Facility Deferred Maintenance, Replacement and Expansion (HB 364/365, SB 261/262)** - \$135.6 million using certificates of participation financing to fund over 550 high priority deferred maintenance projects statewide, and key facility replacement and expansion

## ***Understanding the FY2003 Budget – Overview of Bond Proposals***

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projects, including veterans' housing, the Nome Youth Correctional Center, and the Juneau DMVA Readiness Center/UAS joint facility. Projected debt service is \$13.2 million per year beginning in FY 04. No public vote would be required on COPs.

### ***Bond Bills Already Introduced in the 2001 Legislative Session:***

- **Harbors (HB 146, SB 118)** - \$38.9 million in projects. These revenue bonds would allow upgrades of 30 harbor projects in 12 municipalities and transfer of ownership from the state to the various local governments. Debt service would be paid with marine motor fuel tax receipts, which are currently classified as general funds but paid into a segregated GF account. Debt service payments of \$3.9 million per year would begin in FY2004. Amendments to existing bills will be offered to adjust for projects funded in last year's bond package. No public vote is required on revenue bonds.
- **Seafood and Food Safety Lab (CSHB 51)** - \$11.5 million project to replace an outmoded facility in Palmer. CSHB 51 has passed the House and is in the Senate committee process. General fund debt service will be just under \$1 million per year beginning in FY2004. No public vote would be required to authorize this COP.
- **Accelerated Transportation (HB 191)** Bonds also referred to as GARVEES – \$379 million in projects. These bonds would leverage future federal highway funds to build projects much sooner than going through the State Transportation Improvement Plan (STIP) and would result in long-term savings to the state from avoided inflation. Debt service on the bonds would require no additional general fund support. The state match requirement would be met through earnings on bond proceeds that will save \$62 million in state GF match requirements over the life of the bonds. As a COP this legislation would not require a public vote.

**Accelerated Transportation Initiative GARVEE Bonds:  
\$379 Million in Federally-Financed Projects  
(HB 191)**

These are a special type of bonds based on future federal funding that allows construction of major transportation projects sooner than would otherwise be possible. (Called Grant Anticipation Revenue Vehicle or GARVEE bonds.) Eight states have now issued GARVEEs and at least 5 other states are considering them.

- The plan allows the traditional Statewide Transportation Improvement Program (STIP) to continue with almost 90% of the expected federal funding level even though it accelerates several projects that, because of their size, would take years to get funded through the regular STIP process.
- The state would issue what are essentially revenue bonds (Certificates of Participation or COPs) that pledge future federal funds for debt service with repayment subject to annual appropriation by the legislature.
- The Federal Highway Administration has confirmed in writing (2/8/01) that “investment earnings on bond proceeds could be used to meet the non-Federal match”, saving about \$62 million in general funds over the 18 year life of the bonds. The projects can essentially be done without any state-funded support.
- The costs of debt financing are offset by the savings from not having to pay for inflationary increases in project costs in future years.
- Most states have not taken any public vote to issue GARVEEs, preferring instead to use some type of revenue bond approach to preserve their GO debt capacity for other purposes (e.g., school construction).
- Alaska can receive very favorable rates in financial markets without pledging its full faith and credit as it would with a public vote on a GO . Rates on COPs are currently less than 5%, the lowest in many years.
- Many of the projects will reduce future operations and maintenance costs.
- The work will be performed primarily by the highway construction segment of the construction industry.

**Harbors Upgrade and Transfer Program:  
\$39 Million in Projects Financed with Revenue Bonds  
Using a Portion of Existing Marine Motor Fuel Tax Receipts  
(HB 146, SB 118)**

One of the state's long-term goals is to upgrade state-owned harbor facilities to good condition and transfer them to municipal ownership wherever possible. This legislation will complete the DOT/PF harbor transfer plan for municipalities capable of assuming ownership and maintenance responsibility for their harbors. Additional points:

- Bonds would finance the upgrade and transfer to local governments of 31 state-owned harbor facilities in 12 municipalities, primarily in southeast and southcentral coastal communities.
- As a condition of funding, communities are required to complete their upgrades within 5 years.
- Harbors are valuable community assets that can pay for maintenance and operations costs through moorage and other fees.
- The plan employs the user pays principle by leveraging a portion of existing marine motor fuel tax receipts to pay debt service on COPs (essentially revenue bonds). Marine motor fuel taxes are collected in a segregated account within the general fund in anticipation of their earmarking for marine related purposes.
- Additional cost effectiveness is gained by pooling projects into one bond sale.
- Marine motor fuel tax receipts are currently about \$6.1 million per year, providing sufficient revenue to potentially finance future facility upgrades and transfers or financing of additional harbor or waterfront-type projects.
- Projects are listed on the following page:

**Harbor Upgrade and Transfer List**

	<u>Location</u>	<u>Facility Count</u>	<u>Election District</u>	<u>FY2003 Deferred Maintenance _ \$ thousands</u>
1	Whittier	1	35	\$ 2,449.0
2	Valdez	1	35	\$ 3,212.0
3	Seldovia	1	7	\$ 2,628.0
4	Petersburg (North Harbor, South Harbor, Middle Harbor)	3	2	\$ 3,729.0
5	Ketchikan (Thomas Basin, Ryus Float, Bar Harbor North, Hole in the Wall, Knudson Cove)	5	1	\$ 3,938.0
6	Sitka (Crescent Harbor, Sealing Cove, Thomsen Harbor)	3	2	\$ 2,234.5
7	Cordova	1	35	\$ 4,876.0
8	Klawock	1	5	\$ 896.0
9	Juneau(Auke Bay,Aurora, Harris, Douglas, Taku Harbor, Douglas Dock, North Douglas Ramp)	7	3	\$ 7,119.0
10	Wrangell (Standard, Reliance, Inner,Fish and Game, Shoemaker, Heritage Corps Match)	5	2	\$ 4,492.0
11	Yakutat	1	5	\$ 526.0
12	Hoonah (City float and harbor)	2	5	\$ 2,854.0
	<b>Total for transfer</b>	<b>31</b>		<b>\$ 38,953.5</b>

**DEC Seafood and Food Safety Lab:  
\$11.5 Million Certificate of Participation  
(CSHB 51)**

This project in Anchorage replaces a badly outmoded facility in Palmer with direct life/safety/health impacts on state residents. The new location in Anchorage will provide much better service to industry with close access to the Ted Stevens International Airport and faster turnaround time for processing samples flown in from all around the state. Last year the legislature appropriated \$1.5 million for design and siting work so the project schedule would not be delayed. The project will be funded via a certificates of participation (COP), which is a widely accepted financing tool already used many times by the state (for prisons, HSS Public Health Lab, university dormitories, office buildings, etc.). COPs enjoy ratings in bond markets just that are just slightly lower than GO bonds.

**Deferred Maintenance,  
Replacement and Expansion of State Facilities:  
\$157 Million in Certificates of Participation  
(HB 364/365, SB 261/262)**

As a result of long-standing budget constraints, many state-owned buildings, including Pioneers' Homes, prisons, and office buildings, have accumulated a considerable backlog of deferred maintenance. These facilities are in serious need of repair, major maintenance, and renovation to keep the facilities safe for occupancy and extend their useful lives. In 1998, the Legislative Deferred Maintenance Task Force determined that deferred maintenance on state-owned buildings, not including University of Alaska buildings, totaled over \$169 million. The University of Alaska has identified \$128 million in deferred maintenance needs for University facilities.

It is becoming increasingly critical to address these deferred maintenance needs. Failure to do so will result in an increasing risk to the safety of the public and state employees, and further increase the cost of future repairs as facilities continue to deteriorate.

This financing proposal would authorize the issuance of \$157 million in certificates of participation (COPs) to fund deferred maintenance projects statewide. With current tax-exempt interest rates at very low levels, now is an excellent time to finance these deferred maintenance projects. Projected debt service is \$14.8 million per year beginning in FY 04, based on 15 year financing and an interest rate of 4.9 percent.

**Major elements of this deferred maintenance plan include:**

- \$12.2 million for repairs and renovations for all of the Pioneers' Homes across the state;
- \$8.8 million for deferred maintenance projects in health clinics and juvenile justice facilities, including a renovation and expansion of the Nome youth detention center;
- \$25.8 million for repairs to adult correctional facilities;
- \$11.1 million for State Trooper and Fish and Wildlife Protection facilities;
- \$20.2 million for repairs to facilities maintained by the Department of Administration, including repairs to roofs, elevators, water and electrical systems;
- \$16.6 million for deferred maintenance for facilities maintained by the Department of Transportation and Public Facilities, including repairs to office buildings, courthouses, and highway maintenance stations;
- \$5.5 million for University of Alaska facilities;
- 2.5 million each for ADA projects at the university and state facilities.
- \$4 million as the state share of construction costs for veterans' housing.

***Understanding the FY2003 Budget – Facility Deferred maintenance, Replacement and Expansion***

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The proposed appropriation of the bond proceeds by department for deferred maintenance projects is:

<b><u>Department</u></b>	<b><u>Appropriation (\$millions)</u></b>
Administration	\$19.4
Administration--Pioneer's Homes	\$12.2
Corrections	\$25.8
Education and Early Development	\$8.9
Fish and Game	\$1.4
Governor (statewide ADA)	\$2.5
Health and Social Services	\$5.3
Military and Veterans Affairs	\$1.0
Natural Resources	\$4.0
Public Safety	\$2.1
Transportation and Public Facilities	\$16.6
University of Alaska	\$7.4
University ADA	\$2.5
Court System	\$3.7

In addition to these deferred maintenance projects, the following amounts are appropriated for facility replacement and expansion projects:

<b><u>Department</u></b>	<b><u>Project</u></b>	<b><u>Appropriation (\$millions)</u></b>
Administration	Veterans' housing	\$4.0
Transportation and Public Facilities	Replace 4 Unsafe Highway Maintenance Stations	\$20.7
Education and Early Development	Land acquisition and expansion planning for state museum	\$2.0
Health and Social Services	Nome youth detention facility renovation and expansion	\$3.5
Public Safety	Ketchikan facility replacement	\$3.4
Public Safety	Hangar construction in Anchorage and Juneau	\$5.5
Military and Vets. Affairs	Juneau readiness center/ UAS student activities center joint facility	\$5.5

For a detailed listing of all projects, click [here](#). (Downloadable Excel file.)

Click [here](#) for detailed project information on the following projects: veterans' housing, Nome youth corrections center, Ketchikan, Public Safety building, Public Safety aircraft hangars, Juneau National Guard Readiness Center/UAS joint facility, and State Museum Land Acquisition & Expansion Planning.

**School Construction and Major Maintenance:  
\$212 Million in General Obligation Bonds for 2 Years of Projects  
(HB 363, SB 259)**

- Eliminating the backlog of rural and urban school construction and major maintenance projects has been a high priority for the Knowles/Ulmer Administration. This ballot measure is the next step in an ongoing effort to secure funding for the \$641 million in projects on the Department of Education and Early Development priority lists.
- The current school construction list has 57 projects with a state-funded share of \$490 million. The major maintenance list has 115 projects with a state share of \$151 million. This year, all districts with eligible projects participated in the project ranking process.
- The Governor envisions funding all projects on the two lists over the next six years. One third would be authorized by the voters in the \$212 million general obligation bond proposal on the 2002 ballot with additional GO bonds in about \$200 million increments offered for voter approval in each of the following two statewide general elections. The 2002 legislation would set an important precedent and pattern for addressing the backlog in predictable stages so communities and school districts know when they could expect their projects to be funded.
- According to Department of Education and Early Development (DEED) School Finance staff, experience has shown that funding the priority lists at a rate of about \$100 million per year is optimum. Too little annual funding results in higher costs as the backlogs grow. Too much money going out in a single year can result in higher bids and more out-of-state contractors. Working off both priority lists utilizes a combination of larger scale building construction firms for new construction and smaller businesses such as roofing and plumbing contractors for deferred maintenance.
- The bill would appropriate \$101 million in FY2003 and \$109 million in FY2004. Up to \$2 million would be allocated to State Bond Committee for the cost of issuing the bonds. Debt service of \$10.1 million would begin in FY2004, increasing to \$21 million in FY2005.
- A steady flow of funds into school construction and maintenance provides certainty for districts and inspires confidence in the DEED priority list process. Under this proposal, the priority lists would be frozen for 2 years to ensure that all selected projects get completely funded and are not bumped from their place on the list. Districts would submit their projects for ranking again in 2003 to be funded by GO bonds in the following general election year and so on.

## **Understanding the FY2003 Budget - School Construction and Major Maintenance**

- The current interest rate environment offers very attractive rates of less than 5 % for GO bonds, making it an ideal time to issue new debt. In recent years, school construction funding has come from a combination of new or unique funding sources for bonds (e.g., AHFC dividends and tobacco settlement) and tobacco tax receipts for school debt reimbursement in urban districts. There are no new revenue sources on the horizon, so debt service in this proposal will be paid from general funds.
- The grant funding approach proposed in this legislation improves the fiscal picture for communities because they only have to come up with their local share of the project cost. By contrast, school debt reimbursement programs require them to bond for the full project amount, using more of their local debt capacity than is actually needed for their share of the total cost. It is also more expensive than using GO bonds backed by the full faith and credit of the State of Alaska because the state has a better credit rating than municipalities and can issue debt at lower cost.

For a detailed listing of all projects, click [here](#). (Downloadable Excel file.)